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MIKE SEGAR/ REUTERS Statements from Fed bank presidents Lorie Logan, left, Neel Kashkari and Beth Hammack explained why they objected to language characterizing the next likely rate move as a cut.

Fed Officials' New Question: When to Start Raising Rates?

BY NICK TIMIRAOS

The Federal Reserve's internal debate over interest rates has turned a corner. Officials are no longer arguing about when to resume cutting. Instead, they are starting to talk about the conditions that would warrant an increase.

The shift came further into view Friday, when three Fed bank presidents released statements explaining why they had objected on Wednesday to language characterizing the central bank's next likely move as a cut.

Depending on how the economy evolves, "it could plausibly be appropriate for the...next rate change to be either an increase or a cut," Dallas Fed President Lorie Logan, one of the dissenters, said Friday. -Note

Together with comments Wednesday from outgoing Chair Jerome Powell, the dissents reveal a committee partway through a three-stage shift in how it signals the path of rates—from hinting at cuts, to neutral, to flagging potential increases.

This past week's meeting showed the committee moving from the first to the second stage. Powell's comments suggest a shrinking majority embraced the first step with less conviction than they had before while a growing minority pushed for the second. In his own statement Friday, Minneapolis Fed President Neel Kashkari began sketching out conditions for the third.

Powell laid out the steps on Wednesday. "We will move to a hiking bias if we want to hike," he said. "And we'll move to a neutral bias before that."

The debate will be inherited by Kevin Warsh, the former Fed governor whom President Trump has nominated to succeed Powell. Warsh is set to be confirmed by the Senate the week of May 11. Powell's term as chair ends May 15, and the committee's next policy meeting falls roughly a month later.

Powell acknowledged his colleagues had a "vigorous discussion" about whether to remove a key phrase from the Fed's policy statement that has indicated further reductions are more likely than rate increases. The phrase—about "the extent and timing of additional adjustments" in interest rates—has appeared in every statement since the Fed began cutting rates in 2024.

"The center [of the committee] is moving toward a more neutral place," he said. He added that no one on the committee had called for raising rates.

While a handful of officials had pushed for removing the language in January and March, the number who could support a change increased in recent weeks, making the decision to retain it this past week "a much closer thing" than in March.

Powell, for his part, didn't do much to defend the Fed's decision to keep the easing bias in the statement. His case for keeping it was procedural rather than substantive: He said there was no need to rush a signal that might have to be reversed. He explicitly conceded the other side was "a perfectly good argument."

The terms of the debate have flipped from three months ago. The committee's doves—those most worried about the labor market and most inclined toward lower rates—have shifted from arguing why more cuts may be needed toward explaining why increases would be counterproductive. *Note*

Underlying the shift is a recognition that the Fed may not be able to look past the energy shock the way it has with other supply disruptions. With the Strait of Hormuz effectively closed, oil and other commodities produced in the Middle East can't easily reach global markets through alternative routes.

The statements Friday made the case in more detail. In separate statements, Cleveland Fed President Beth Hammack and Logan, the Dallas Fed president, each said the existing language—a holdover from last fall's three rate cuts—no longer fit the outlook.

Kashkari went a step further by sketching out two scenarios, with one that would call for rate increases. In a benign case, with the Strait of Hormuz reopening quickly, an extended pause followed by resuming gradual cuts as the inflation shock faded could be appropriate. But under an extended closure, a "series" of rate increases could be warranted, "even at the risk of further weakness to the labor market."

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